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ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
PAUL NEWMAN
SANDRA D. KENNEDY
BRENDA BURNS

In the matter of:

Morgan Financial, L.L.C., an Arizona limited liability company,

Morgan Financial Lenders, L.L.C., and Arizona limited liability company,

Jimmy Hartgraves Jr. and Laurie Hartgraves, husband and wife,

Respondents.

DOCKET No. S-20719A-09-0583

**ANSWER TO FIRST AMENDED
NOTICE OF OPPORTUNITY FOR
HEARING REGARDING
PROPOSED ORDER TO CEASE
AND DESIST, FOR
ADMINISTRATIVE PENALTIES
AND FOR OTHER AFFIRMATIVE
ACTION**

MORGAN FINANCIAL, L.L.C., MORGAN FINANCIAL LENDERS, L.L.C., JIMMY HARTGRAVES, JR., and LAURIE HARTGRAVES ("Respondents"), through undersigned counsel, hereby submit their Answer to the First Amended Notice of Opportunity for Hearing Regarding Proposed Order to Cease and Desist, for Administrative Penalties and for other Affirmative Action, ("First Amended Notice") dated December 21, 2010.

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1 I.

2 JURISDICTION

3 1) Answering paragraph 1, Respondents admit that the Securities Division (the
4 "Division") of the Arizona Corporation Commission (the "Commission") has the
5 jurisdiction conferred to it pursuant to Article XV of the Arizona Constitution and the
6 Securities Act of Arizona, A.R.S. § 44-1801, et. seq. ("Securities Act"). Respondents deny
7 that they have engaged in any acts, practices, and transactions that constitute violations of
8 the Securities Act.

9 II.

10 RESPONDENTS

11 2) Respondents admit the allegations contained in paragraphs 2 and 3.

12 3) Answering paragraph 4, Respondents admit that Jimmy Hartgraves, Jr., is the
13 managing member and controlling person of Morgan Financial, L.L.C. ("Morgan
14 Financial"), but deny that he conducted business individually through Morgan Financial.
15 Respondents further allege that all business was conducted by Morgan Financial.

16 4) Respondents admit the allegations contained in paragraphs 5 thru 10.

17 III.

18 FACTS

19 A. PROMISSORY NOTES

20 5) Respondents admit the allegations in paragraphs 11 thru 13.

21 6) Respondents admit the factual allegations in paragraphs 14 and 15, but deny
22 that lenders who were holders of Notes constitute "Investors" as the term "Investors"
23 constitutes a legal conclusion, and deny that money was used primarily as "working
24 capital." Lenders to Morgan Financial are referred to hereinafter sometimes as "Lenders,"
25 and Respondents will treat all of the Commission's references to "Investors" in the First
26 Amended Notice as references to "Lenders." Any admission of an allegation containing the
27
28

1 term "Investor" shall be deemed to admit that same allegation, but substituting the term
2 "Lender" for "Investor."

3 7) Respondents admit the allegations in paragraphs 16 thru 19.

4 8) Answering paragraph 20, Respondents admit that certain loans originated by
5 Morgan Financial ("Morgan Financial Loans") were evidenced by promissory notes
6 payable to Morgan Financial L.L.C. and secured by deeds of trust naming Morgan
7 Financial, L.L.C. as beneficiary, that Lenders' funds were used to make Morgan Financial
8 Loans, and that Lenders were not named as beneficiaries on the deeds of trust securing
9 Morgan Financial Loans, and that Notes were unsecured. Respondents allege that Morgan
10 Financial received requests for mortgage loans from third parties, and after conducting an
11 underwriting analysis, would determine whether or not to fund a particular loan request.
12 Respondents deny the remaining allegations of paragraph 20.

13 9) Respondents admit the allegations in paragraph 21.

14 10) Answering paragraph 22, Respondents admit that Morgan Financial raised
15 approximately \$5,461,700 from Lenders not affiliated with Respondents, and that the Notes
16 were not registered with the Commission. Respondents Hartgraves allege that they loaned
17 approximately \$800,000 to Morgan Financial that was represented by Notes. Respondents
18 deny that any of the Notes needed to be registered with the Commission.

19 **B. MERRILL LYNCH LOAN PORTFOLIO**

20 11) Respondents admit the allegations in paragraph 23.

21 12) Respondents deny that loans were made to builders who were not owners of
22 properties securing loans, and admit the remaining allegations of paragraph 24.

23 13) Respondents admit the allegations contained in paragraph 25 thru 33.

24 **C. LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS**

25 14) Respondents admit that in or around February 2010, Morgan Financial
26 contacted a limited number of Lenders to determine their interest in potentially exchanging
27 their Notes for membership interests in Morgan Financial Lenders, LLC ("MF Lenders").
28

1 Respondents deny the remaining allegations contained in paragraph 34. Respondents allege
2 that any opportunity to exchange Notes for membership interests in MF Lende5rs was made
3 by means of the Exchange Memorandum (as defined below).

4 15) Respondents admit that they created an "Exchange Memorandum Dated May
5 7, 2010" (the "Exchange Memorandum"), and that MF Lenders was formed for the sole
6 purpose of lending funds to Morgan Financial, as alleged in the First Amended Notice, to
7 replace debts evidenced by existing Notes that would be exchanged for interests in MF
8 Lenders. Respondents deny the remaining allegations in paragraph 35.

9 16) Respondents admit the allegations of paragraph 36.

10 17) Answering paragraph 37, Respondents admit that the single loan made by
11 Morgan Financial to MF Lenders would be secured by a collateral assignment, but that the
12 security covered by the collateral assignment was all of Morgan Financial's rights relative
13 to the Loan Portfolio, and that a UCC financing statement would be filed listing MF
14 Lenders as the secured party. Respondents deny the remaining allegations of paragraph 37.

15 18) Respondents admit the allegations of paragraphs 38 through 40.

16 19) Answering paragraph 41, Respondents admit that Morgan Financial
17 distributed the Exchange Memorandum to all Lenders, offering them the opportunity to
18 exchange their Notes for membership interests in MF Lenders, Respondents deny all other
19 allegations of paragraph 41.

20 20) Respondents admit the allegations of paragraph 42.

21 21) Respondents admit the allegations contained in paragraph 43 but deny that the
22 membership interests need to be registered.

23 22) Respondents admit the allegations contained in paragraph 44 but deny that
24 any of such persons need to be registered as dealers or salesmen.

25 IV.

26 VIOLATION OF A.R.S. § 44-1841

27 (Offer or Sale of Unregistered Securities)

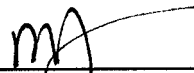
1 consideration, payment, release, and statute of limitations. Respondents presently submit
2 the following additional affirmative defenses:

3 1. For their first affirmative Defense, Respondents allege that they did not act
4 with any requisite scienter.

5 2. For their second affirmative Defense, Respondents allege that they acted on
6 reliance of counsel.

7 **WHEREFORE**, Respondents request that the Commission dismiss this action in its
8 entirety against these Respondents, that they be awarded their costs and attorneys' fees, and
9 any other relief that it believes is just and proper.

10 **RESPECTFULLY SUBMITTED** this 22nd day of February, 2011.

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13 Charles R. Berry
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17 Original and 13 copies filed
18 this 22nd day of February, 2011
19 with the Arizona Corporation Commission
20 Docket Control Center and COPIES hand-delivered
21 this same date to:

22 Administrative Law Judge Marc E. Stern
23 Arizona Corporation Commission, Securities Division
24 1200 W. Washington St.
25 Phoenix, AZ 85007

26 Phong (Paul) Huynh
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